Department of Justice

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JUSTICE DEPARTMENT REQUIRES SIGNIFICANT DIVESTITURES IN ALCOA/REYNOLDS ALUMINUM MERGER

Divestitures Protect Competition in Aluminum Prices for American Consumers and Businesses

WASHINGTON, D.C. -- The Department of Justice will require Alcoa Inc. and Reynolds Metals Company -- two of the world's largest aluminum companies -- to sell a Reynolds refinery in Corpus Christi, Texas, and Reynolds' controlling interest in a high volume, state-of-the-art, refinery in Australia, to resolve the Department's antitrust concerns involving their proposed $5 billion merger. The required divestitures involve refineries that produce alumina, a powder used in aluminum and other products.

The Department's Antitrust Division filed a lawsuit and proposed consent decree today in U.S. District Court in Washington, D.C. The consent decree, if approved by the court, would resolve the lawsuit and the Department's competitive objections to the transaction.

"The aluminum industry produces a wide variety of important commercial and consumer products and is dependent upon ample supplies of alumina at competitive prices," said Joel I. Klein, Assistant Attorney General in charge of the Antitrust Division. "These divestitures will protect against a loss of competition for the aluminum producers, businesses that use aluminum to manufacture products, and American consumers who buy these products."

Alumina refineries produce two types of alumina, a powder refined from bauxite ore: smelter grade alumina (SGA) and chemical grade alumina (CGA). SGA is a critical input in the production of aluminum metal, which is used to produce such products as aluminum foil, beverage cans, building materials, and aircraft skin. CGA is used in the production of numerous industrial and consumer products, such as detergents, countertops, and flame retardants.

According to the complaint, the proposed acquisition would have substantially lessened competition in the refining and sale of SGA and CGA. The acquisition of Reynolds by Alcoa, as originally proposed, would have resulted in higher prices to aluminum manufacturers and their customers, as well as to consumers who purchase products containing alumina.

Under the proposed consent decree, Alcoa will divest Reynolds' controlling interest in the Worsley refinery, which is located in Western Australia's Darling Range. Worsley is one of the world's lowest cost alumina refineries. The proposed resolution also requires Reynolds to divest Reynolds' Corpus Christi, Texas, refinery, which produces SGA and CGA in the United States.

Without the proposed divestitures, Alcoa, as a result of the acquisition of Reynolds, would have owned or controlled approximately 38 percent of the world SGA market. In CGA, Alcoa would have held approximately 59 percent of the North American market. In both markets, the merger would have increased concentration significantly.

The European Commission announced earlier today that it would also require the companies to make certain divestitures, including the sale of Reynold's refining operation in Stade, Germany. The Department's Antitrust Division consulted extensively with competition authorities in the EC during the course of their respective investigations. Taken together, the U.S. and European Commission agreements require Alcoa to divest all of the alumina capacity owned by Reynolds.

"This is an excellent example of how international cooperation between antitrust agencies can lead to harmonious resolutions that benefit consumers around the world," said Klein.

Alcoa, headquartered in Pittsburgh, is the largest aluminum company in the world with 1999 revenues of more than $16 billion. Reynolds, based in Richmond, Virginia, is the second largest domestic aluminum company and the third largest aluminum company in the world with 1999 revenues of more than $4.6 billion. They are both involved in the mining and refining of bauxite into smelter grade and chemical grade alumina respectively, and the smelting of smelter grade alumina into aluminum.

As required by the Tunney Act, the proposed consent decree, along with the Department's Competitive Impact Statement, will be published in the Federal Register. Any person may submit written comments concerning the proposed decree during a 60 day comment period to Roger Fones, Chief, Transportation, Energy, and Agriculture Section, Antitrust Division; U.S. Department of Justice; 325 7th Street, NW, Suite 500; Washington, D.C. 20530. At the conclusion of the comment period, the court may enter the consent decree upon a finding that it serves the public interest.

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